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computation of the average percentage change.

C. For hospital-attached nursing facilities not in the sample, the allocation of the appraised value of the shared service areas must be recomputed if the hospital involved experiences a cumulative change in total patient days as defined by the Medicare program of more than 15 percent from the reporting year in which the most recently used set of allocation statistics were determined. The allocation using the method described in Section 15.010 must be based on the Medicare stepdown in effect on September 30 of the rate year in which the updating of the appraised value is performed.

D. The adjustment to the property-related payment rate which results from updating the appraised value is effective for the rate year immediately following the rate year in which the updating takes place except as provided in Section 15.140.

E. Each calendar year that a random sample is selected in item A to compute the average percentage change in appraised values in item B, the Department shall evaluate the adequacy of the sample size according to subitems (1) to (6).

(1) The tolerance level for an acceptable error rate must be plus or minus three percentage points.

(2) The confidence level for evaluating the sample size must be 95 percent.

(3) The sample size required to be within the tolerance level in subitem (1) must be computed using standard statistical methods for determination of a sample size.

(4) If the required sample size in subitem (3) is greater than the sample size used in item A, additional appraisals must be performed until the number of appraisals is equal to the required sample size in subitem (3). The additional nursing facilities needed to complete the required sample size must be randomly selected. A nursing facility that is receiving a special reappraisal under Section 15.030, or one that is receiving an interim payment rate under Section 15.140, or one that was appraised in the original sample in item A must be excluded. The average percentage change in appraised values in item B must be recomputed based on the increased sample size in subitem (3).

(5) If the tolerance level in subitem (1) continues to be exceeded after applying the procedures in subitems (3) and (4), the procedures in subitems (3) and (4) must be repeated until the error rate is within the tolerance level.

(6) If the required sample size in subitem (3) is equal to or less than the sample size used in item A, the average percentage change in appraised values must be the percentage determined in item B.

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SECTION 15.030 **Special reappraisals.** Special reappraisals are subject to the requirements of items A to F.

A. A nursing facility which makes an addition to or replacement of buildings, attached fixtures, or land improvements may request the Department to conduct a reappraisal upon project completion. A special reappraisal request must be submitted to the Department within 60 days after the project's completion date to be considered eligible for a special reappraisal. If a project has multiple completion dates or involves multiple projects, only projects or parts of projects with completion dates within one year of the completion date associated with a special reappraisal request can be included for the purpose of establishing the nursing facility's eligibility for a special reappraisal. A facility which is eligible to request, has requested, or has received a special reappraisal during the calendar year must not be included in the random sample process used to determine the average percentage change in appraised value of nursing facilities in the sample.

Upon receipt of a written request, the Department shall conduct a reappraisal within 60 days provided that all conditions of this section are met. The total historical cost of the addition or replacement, exclusive of the proceeds from disposals of capital assets or applicable credits such as public grants and insurance proceeds, must exceed the lesser of \$200,000 or ten percent of the most recent appraised value. The addition or replacement must be complete and a certificate of occupancy issued, or if a certificate of occupancy is not required, the addition or replacement must be available for use. Special reappraisals under this item are limited to one per 12-month period.

B. A nursing facility which retires buildings, attached fixtures, land improvements, or portions thereof without replacement, shall report the deletion to the Department within 30 days if the historical cost of the deletion exceeds \$200,000. The Department shall conduct a reappraisal of the nursing facility to establish the new appraised value and adjust the property-related payment rate accordingly.

C. The adjusted property-related payment rate computed as a result of reappraisals in items A and B is effective on the first day of the month following the month in which the addition or replacement was completed or when the deletion occurred.

D. The Department shall reappraise every nursing facility at least once every seven calendar years following the initial appraisal. The Department shall reappraise a nursing facility if at the end of seven calendar years the nursing facility has not been reappraised at least once under Sections 15.020 or 15.030. The Department shall postpone the first seventh year catch-up reappraisals until the ninth year after the initial appraisal of all nursing facilities. The Department shall adjust the property-related payment rate to reflect the change in appraised value. The adjustment of the property-related payment rate is effective on the first day of the rate year immediately following the reappraisal.

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E. The Department may require the reappraisal of a nursing facility within 60 days of receipt of information provided by the Minnesota Department of Health regarding the violation of standards and rules relating to the condition of capital assets.

F. Changes in the appraised value computed in this section must not be used to compute the average percentage change in Section 15.020, item B.

**SECTION 15.035 Appraisal sample stabilization.** The percent change in appraised values used for routine updating of appraised values shall be stabilized by eliminating from the sample of nursing facilities those appraisals that represent the five highest and the five lowest deviations from those nursing facilities previously established appraised values.

**SECTION 15.040 Determination of allowable appraised value.** A nursing facility's appraised value must be limited by items A to G.

A. The replacement cost new per bed limit for licensed beds in single bedrooms and multiple bedrooms is determined according to subitems (1) to (4):

(1) For the rate year beginning July 1, 1992, the replacement-cost-new per bed limit must be \$37,786 per licensed bed in multiple bedrooms and \$56,635 per licensed bed in a single bedroom. After September 30, 1992, new projects which meet the requirements in Section 15.1374, item E, shall receive the replacement-cost-new per bed limits in that provision.

(2) The average historical cost per bed for depreciable equipment is computed by adding the historical cost of depreciable equipment for each nursing facility as determined in Section 15.100, item A and dividing the sum by the total number of licensed beds in those nursing facilities. The amount is then subtracted from the replacement cost new per bed limits determined in subitem (1).

(3) The differences computed in subitem (2) are the replacement cost new per bed limits for licensed beds in single bedrooms and multiple bedrooms effective for the rate year beginning on July 1, 1991.

(4) On each succeeding January 1, the Department will adjust the limit in subitem (1) and the depreciable equipment costs in subitem (2) by the percentage change in the composite index published by the Bureau of the Census Composite fixed-weighted price of the United States Department of Commerce in the C30 Report, Value of New Construction Put in Place for the two previous Octobers.

B. Each nursing facility's maximum allowable replacement cost new is determined annually according to subitems (1) to (3):

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(1) The multiple bedroom replacement cost new per bed limit in item A must be multiplied by the number of licensed beds in multiple bedrooms.

(2) The single bedroom replacement cost new per bed limit in item A must be multiplied by the number of licensed beds in single bedrooms except as provided in Section 15.110, item C, subitem (2).

(3) The nursing facility's maximum allowable replacement cost new is the sum of subitems (1) and (2).

C. The nursing facility's replacement cost new determined in Sections 15.010 to 15.030 must be reduced by the replacement cost new of portions of the nursing facility used for functions whose costs are disallowed under Sections 1.000 to 18.050. Examples of such adjustments include non-nursing facility areas, or shared areas, therapy areas, day care areas, etc.

D. The adjusted replacement cost new is the lesser of item B or C.

E. The adjusted depreciation is determined by subtracting from the depreciation in Sections 15.010 to 15.030 the amount of depreciation, if any, related to the portion of the nursing facility's replacement cost new disallowed in item C or D.

F. The nursing facility's allowable appraised value is determined by subtracting the amount determined in item E from the amount in item D. If no adjustment to the replacement cost new is required in items C and D, then the nursing facility's allowable appraised value is the appraised value determined in Sections 15.010 to 15.030.

G. A nursing facility which has reduced licensed bed capacity after the preceding January 1, shall be allowed to aggregate the applicable replacement cost new per bed limits based on the number of beds licensed prior to the reduction; and establish capacity days for each rate year following the licensure reduction based on the number of beds licensed on the previous April 4. The notification must include a copy of the delicensure request that has been submitted to the Commissioner of health.

**SECTION 15.050 Allowable debt.** For purposes of determining the property-related payment rate, the Department shall allow or disallow debt according to items A to F.

A. Debt shall be limited as follows:

(1) Debt incurred for the purchase of land directly used for resident care and the purchase or construction of nursing facility buildings, attached fixtures, or land improvements

improvements shall be allowed.

D. For reporting years ending on or after September 30, 1984, the total amount of allowable debt shall be the sum of all allowable debts at the beginning of the reporting year plus all allowable debts at the end of the reporting year divided by two. Nursing facilities which have a debt with a zero balance at the beginning or end of the reporting year must use a monthly average for the reporting year.

E. Except as provided in item F, debt incurred as a result of loans between related organizations must not be allowed.

F. Debt meeting the conditions in Section 15.132 is allowable.

**SECTION 15.060 Limitations on interest rates.** The Department shall limit interest rates according to items A to C.

A. Except as provided in item B, the effective interest rate of each allowable debt, including points, financing charges, and amortization bond premiums or discounts, entered into after September 30, 1984, is limited to the lesser of:

(1) the effective interest rate on the debt; or

(2) 16 percent.

B. Variable or adjustable rates for allowable debt are allowed subject to item A. For each allowable debt with a variable or adjustable rate, the effective interest rate must be computed by dividing the interest expense for the reporting year by the average allowable debt computed under Section 15.050, item D.

C. For rate years beginning on July 1, 1985, and for rate years beginning after June 30, 1987, the effective interest rate for debts incurred before October 1, 1984, is allowed subject to item A.

**SECTION 15.070 Allowable interest expense.** The Department shall allow or disallow interest expense including points, finance charges, and amortization bond premiums or discounts under items A to G.

A. Interest expense is allowed only on the debt which is allowed under Section 15.050 and within the interest rate limits in Section 15.060.

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B. A nonprofit nursing facility shall use its restricted funds to purchase or replace capital assets to the extent of the cost of those capital assets before it borrows funds for the purchase or replacement of those capital assets. For purposes of this item and Section 4.020, a restricted fund is a fund for which use is restricted to the purchase or replacement of capital assets by the donor or by the nonprofit nursing facility's board.

C. Construction period interest expense must be capitalized as a part of the cost of the building. The period of construction extends to the earlier of either the first day a resident is admitted to the nursing facility, or the date the nursing facility is certified to receive medical assistance recipients.

D. Interest expense for allowable debts entered into after May 22, 1983, is allowed for the portion of the debt which together with all outstanding allowable debt does not exceed 100 percent of the most recent allowable appraised value as determined in Sections 15.010 to 15.040. For a rate year beginning on or after July 1, 1989, the interest expense that results from a refinancing of a nursing facility's demand call loan, when the loan that must be refinanced was incurred before May 22, 1983, is an allowable interest expense.

E. Increases in interest expense after May 22, 1983, which are the result of changes in ownership or reorganization of provider entities, are not allowable.

F. Except as provided in item G, increases in total interest expense which are the result of refinancing of debt after May 22, 1983, are not allowed. The total interest expense must be computed as the sum of the annual interest expense over the remaining term of the debt refinanced.

G. Increases in total interest expense which result from refinancing a balloon payment on allowable debt after May 22, 1983, shall be allowed according to subitems (1) to (3):

(1) The interest rate on the refinanced debt shall be limited under Section 15.060, item A.

(2) The refinanced debt shall not exceed the balloon payment.

(3) The term of the refinanced debt must not exceed the term of the original debt computed as though the balloon payment did not exist.

**SECTION 15.080 Building capital allowance for owner-operated nursing facilities or nursing facilities with capital leases.** Except as provided in Section 15.140, for the rate years beginning after June 30, 1985, the building capital allowance for owner-operated nursing facilities or nursing facilities with capital leases must be computed as follows:

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A. The rental factor is 5.33 percent. For the rate year beginning July 1, 1988 the rental factor will be increased by 6.2% rounded to the nearest 100th percent or 5.66 percent for the purpose of reimbursing nursing facilities for soft costs and entrepreneurial profits not included in the cost valuation services used by the state's contracted appraisers. For rate years beginning on or after July 1, 1989, the rental factor is the amount determined for the rate year beginning July 1, 1988.

B. The difference between the nursing facility's allowable appraised value determined under Sections 15.010 to 15.040 and the allowable debt determined in Section 15.050 is multiplied by the rental factor.

C. The amount determined in item B must be added to the total allowable interest expense determined under Sections 15.060 and 15.070.

D. Except as in item E, the amount determined in item C must be divided by 95 percent of capacity days.

E. If the average length of stay in the skilled level of care within a nursing facility is 180 days or less, the nursing facility shall divide the amount in item C by the greater of resident days or 80 percent of capacity days but in no event shall the divisor exceed 95 percent of capacity days.

For purposes of this item, the nursing facility shall compute its average length of stay for the skilled level of care by dividing the nursing facility's skilled resident days for the reporting year by the nursing facility's total skilled level of care discharges for that reporting year.

F. If an operating lease provides that the lessee's rent is adjusted to recognize improvements made by the lessor and related debt, the costs for capital improvements and related debt are allowed in the computation of the lessee's building capital allowance, provided that reimbursement for these costs under an operating lease do not exceed the rate otherwise paid.

**SECTION 15.090 Building capital allowance for nursing facilities with operating leases.**

Except as provided in Section 15.140, for rate years beginning after June 30, 1985, the building capital allowance for nursing facilities with operating lease costs incurred for buildings must be paid as determined by items A to C.

A. The allowable appraised value of the nursing facility must be established according to Sections 15.010 to 15.040.

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B. The allowable interest expense determined under Sections 15.060 and 15.070 and the allowable debt determined under Section 15.050 for the leased nursing facility must be considered zero.

C. Except as in item D, the building capital allowance must be the lesser of the operating lease expense divided by 95 percent of capacity days, or the allowable appraised value multiplied by the rental factor and then divided by 95 percent of capacity days.

D. A nursing facility with an average length of stay of 180 days or less shall use the divisor determined in Section 15.080, item E, instead of 95 percent of capacity days.

**SECTION 15.100 Equipment allowance.** For rate years beginning after June 30, 1985, the equipment allowance must be computed according to items A to E.

A. The historical cost of depreciable equipment for nursing facilities which do not have costs for operating leases for depreciable equipment in excess of \$10,000 during the reporting year ending September 30, 1984, is determined under subitems (1) and (2):

(1) The total historical cost of depreciable equipment reported on the nursing facility's audited financial statement for the reporting year ending September 30, 1984, must be multiplied by 70 percent. The product is the historical cost of depreciable equipment.

(2) The nursing facility may submit an analysis which classifies the historical cost of each item of depreciable equipment reported on September 30, 1984. The analysis must include an itemized description of each piece of depreciable equipment and its historical cost. The sum of the historical cost of each piece of equipment is the total historical cost of depreciable equipment for that nursing facility. For purposes of this item, a hospital-attached nursing facility shall use the allocation method in Section 15.010 to stepdown the historical cost of depreciable equipment.

B. The historical cost per bed of depreciable equipment for each nursing facility must be computed by dividing the total historical cost of depreciable equipment determined in item A by the nursing facility's total number of licensed beds on September 30, 1984.

C. All nursing facilities must be grouped in one of the following:

(1) nursing facilities with total licensed beds of less than 61 beds;

(2) nursing facilities with total licensed beds of more than 60 beds and less than 101 beds; or

(3) nursing facilities with more than 100 total licensed beds.



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D. Within each group determined in item C, the historical cost per bed for each nursing facility determined in item B must be ranked and the median historical cost per bed established.

E. The median historical cost per bed for each group in item C as determined in item D must be increased by ten percent. For rate years beginning after June 30, 1986, this amount shall be adjusted annually by the percentage change indicated by the urban consumer price index for Minneapolis-Saint Paul, as published by the Bureau of Labor Statistics, new series index (1967 = 100) for the two previous Decembers.

F. The equipment allowance for each group in item C shall be the amount computed in item E multiplied by 15 percent and divided by 350.

G. For the rate year beginning July 1, 1990, the Commissioner shall increase the nursing facility's equipment allowance established in items A to F by \$.10 per resident day.

H. For the rate period beginning October 1, 1992, the equipment allowance for each nursing facility shall be increased by 28 percent. For rate years beginning after June 30, 1993, the allowance must be adjusted annually for inflation by the index in E.

**SECTION 15.110 Capacity days.** The number of capacity days is determined under items A to C.

A. The number of capacity days is determined by multiplying the number of licensed beds in the nursing facility by the number of days in the nursing facility's reporting period.

B. Except as in item C, nursing facilities shall increase the number of capacity days by multiplying the number of licensed single bedrooms by 0.5 and by the number of days in the nursing facility's reporting period. This adjustment has the effect of assigning a greater proportion of property costs to single bed rooms.

C. The Department shall waive the requirements of item B if a nursing facility agrees in writing to subitems (1) to (3).

(1) The nursing facility shall agree not to request a private room payment in Section 17.030 for any of its medical assistance residents in licensed single bedrooms.

(2) The nursing facility shall agree not to use the single bedroom replacement cost new limit for any of its licensed single bedrooms in the computation of the allowable appraised value in Section 15.040.

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A. Except as provided in Section 15.140, the building capital allowance of each nursing home shall be added to the equipment allowance.

B. For rate years beginning after June 30, 1986, the historical property-related cost per diem shall be the property-related payment rate established for the previous rate year unless the nursing facility's capacity days change. If the nursing facility's capacity days change from one reporting year to the next for any reason including a change in the number of licensed nursing facility beds, a change in the election for computing capacity days as provided in Section 15.110, or a change in the number of days in the reporting year, the historical property related per diem must be recalculated using the capacity days for the reporting year in which the change occurred.

C. For rate years beginning after June 30, 1985, the property-related payment rate shall be the lesser of the amount computed in item A or the historical property-related per diem in item B increased by six percent for each rate year beginning July 1, 1985 through July 1, 1989, except as provided in items D to G.

D. A nursing facility whose allowable historical property-related per diem determined in item B is less than or equal to \$2.25 shall receive a property related payment rate equal to the greater of \$2.25 or its allowable historical property-related per diem increased by six percent for each rate year beginning July 1, 1985 through July 1, 1989, except that the property-related payment rate shall not exceed the amount determined in item A.

E. A nursing facility whose allowable historical property-related per diem determined in item B is greater than the amount determined in item A shall receive a property-related payment rate equal to its allowable historical property-related per diem.

F. In the event of a change of ownership or reorganization of the provider entity occurring after June 30, 1985, the nursing facility's property-related payment rate must be the lesser of the property-related payment rate in effect at the time of sale or reorganization or the amount determined in item A. Changes in the property-related payment rate as a result of this item shall be effective on the date of the sale or reorganization of the provider entity. For the purposes of this subsection, the following types of transactions shall not be considered a sale or reorganization of a provider entity:

(1) The sale or transfer of a nursing facility upon death of an owner.

(2) The sale or transfer of a nursing facility due to serious illness or disability of an owner as defined under the social security act.

(3) The sale or transfer of the nursing facility upon retirement of an owner at 62 years of age or older.